

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2006

CONTENTS

Page

Independent auditors' report	iv - v
Management's Discussion and Analysis	vi - xvi
Basic financial statements	
Government-wide financial statements	
Statement of net assets	1
Statement of activities	2
Fund financial statements	
Balance sheet - governmental funds	3
Statement of revenues, expenditures and changes in fund balance - governmental funds.....	4
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	5
Fiduciary funds	
Statement of fiduciary assets and liabilities	6
Notes to financial statements	7 - 23
Required supplementary information	24
Budgetary comparison schedule - general fund	25
Additional information	26
Nonmajor governmental fund types	
Combining balance sheet	27
Combining statement of revenues, expenditures, and changes in fund balances	28

CONTENTS

	<u>Page</u>
General fund	
Detail of revenue	29
Detail of expenditures	30 - 32
Detail of other financing sources and uses.....	33
Nonmajor special revenue funds	
Combining balance sheet	34
Combining statement of revenues, expenditures and changes in fund balances	35
Nonmajor debt service funds	
Combining balance sheet	36
Combining statement of revenues, expenditures and changes in fund balances	37
Capital projects fund	
Sinking fund detail of expenditures and other financing uses	38
Detail of expenditures	39
Fiduciary funds	
Combining balance sheet	40
Statement of cash receipts and disbursements by school.....	41
General long-term debt group of accounts	
Bonded debt	42 - 45
Investment schedule	46



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Racek
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

INDEPENDENT AUDITORS' REPORT

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

August 18, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of East Lansing, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of School District of the City of East Lansing's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of East Lansing as of June 30, 2006, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

August 18, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2006, on our consideration of School District of the City of East Lansing's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xvi and page 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

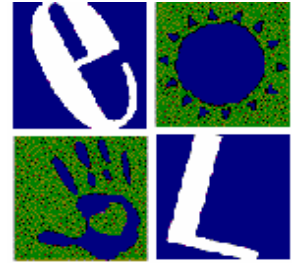
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of East Lansing's basic financial statements. The additional information on pages 27 through 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mann, Costeniser & Ellis, P.C.

Certified Public Accountants

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006



The School District of the City of East Lansing, is a K-12 public school district located in Ingham and Clinton Counties, Michigan. The Management's Discussion and Analysis (MD&A), a requirement of Governmental Accounting Standards Board (GASB) Statement 34, is intended to be the School District of the City of East Lansing's management's review of financial performance for the year ended June 30, 2006. The MD&A is intended to be read in conjunction with the District's financial statements. Prior year information is provided for comparative analysis.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The government-wide financial statements are per GASB 34 and provide information about the *governmental activities* of the entire District, presenting both an aggregate view of the District's finances and a long-term view of those finances. The fund financial statements provide the next level of detail. These statements provide information about how *governmental funds* were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations by providing information about the District's most significant funds and with all other funds presented in one column as "non-major funds". The fiduciary funds statements present financial information about activities for which the District acts solely as an agent for the benefit of mostly student groups. The required supplemental information provide budget to actual comparisons for the general fund. The remaining statements are provided for additional analysis.

Government-wide Financial Statements – Reporting the School District as a Whole

In the business arena a commonly asked question is, "is the entity as a whole better or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report financial information about the District as a whole and its activities in a way that helps the reader answer this question. These statements are prepared using the full accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. They report all of the District's assets and liabilities, both short and long-term, and all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net assets (the difference between assets and liabilities), as reported in the Statement of Net Assets, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, the District's goal is to provide educational services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the District.

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006



The governmental-wide financial statements report the governmental activities of the District, which encompass all of the District's services. Local property taxes, state per pupil foundation allowance, and state and federal grants finance the majority of these activities.

Fund Financial Statements – Reporting the School District's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds of the District - not the District as a whole. Certain funds are required to be established by State law or by bond covenants. Others funds are created in order to help control and manage their activities. The fund level statements of the District use an accounting method called modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. For the most part these fund level statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported.

All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows in and out of funds and the balances remaining at year-end that are available for appropriation. Governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. The information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's educational programs. Differences between governmental activities, as reported in the government-wide statements, and governmental funds, as reported in the fund financial statements, are presented in a reconciliation statement.

Fiduciary Statements – Reporting the School District's Trustee Responsibility

The District is the trustee, or fiduciary for its student activity funds. All of the District's fiduciary activities are aggregated and reported in the Statement of Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006



The School District as a Whole – Summary of Net Assets

The Statement of Net Assets provides the perspective of the District as a whole. The following schedule summarizes the net assets as of June 30, 2006 and June 30, 2005:

	2006	2005
ASSETS:		
Current assets	\$ 15,051,130	\$ 20,301,367
Noncurrent assets	81,908,429	78,339,390
Total assets	<u>\$ 96,959,559</u>	<u>\$ 98,640,757</u>
LIABILITIES:		
Current liabilities	\$ 8,725,610	\$ 12,501,739
Long-term liabilities	87,039,738	88,343,264
Total liabilities	<u>95,765,348</u>	<u>100,845,003</u>
NET ASSETS (DEFICIT):		
Invested in capital assets, net of related debt	1,799,955	2,789,891
Restricted for capital projects (sinking fund)	2,131,729	1,969,109
Unrestricted	<u>(2,737,473)</u>	<u>(6,963,246)</u>
Total net assets (deficit)	<u>1,194,211</u>	<u>(2,204,246)</u>
Total liabilities and net assets (deficit)	<u>\$ 96,959,559</u>	<u>\$ 98,640,757</u>

Analysis of Financial Position

For the fiscal year ended June 30, 2006, the District's net assets (deficit) decreased by \$3,398,457. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

As a result of GASB 34, the District is required to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets.

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006



The District records depreciation expense on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, when applicable. For the fiscal year ended June 30, 2006 and June 30, 2005, the following was recorded as depreciation expense:

	2006	2005
Land improvements	\$ 201,582	\$ 92,863
Building and additions	1,360,388	703,997
Furniture and equipment	509,299	254,871
Transportation and equipment	50,297	40,591
Total	<u>\$ 2,121,566</u>	<u>\$ 1,092,322</u>

One approach of interpreting depreciation expense is that in order to maintain net assets at a constant level the District would have to capitalize assets equal to the annual depreciation expense. However, when taking into consideration factors such as, inflation and repairs and maintenance, the actual investment in capital outlay would have to exceed the depreciation expense in order to maintain assets at the same level of value and functionality.

2. Capital Outlay Acquisition

For the fiscal year ended June 30, 2006, \$5,915,545 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets are depreciated over time as explained above.

The net effect of capital asset additions, deletions, and the current year's depreciation expense is an increase to capital assets in the amount of \$3,603,574 for the fiscal year ended June 30, 2006. The majority of this increase is due to the 2000 Capital Projects construction.

3. Long-Term Debt

The District's total general long-term debt for the fiscal year ended June 30, 2006 decreased by \$4,161,173. The majority of the decrease is a result of the District paying off its 1991 Capital Appreciation Bonds and arbitrage liability.

Results of Operations

The results of this year's operations for the School District as a whole are reported in the Statement of Activities, which shows the changes in net assets.

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006



For the fiscal year ended June 30, 2006 and June 30, 2005, the District-wide results of operation were:

	<u>2006</u>	<u>% of total</u>	<u>2005</u>	<u>% of total</u>
General revenues:				
Property taxes, levied for general operations	\$ 8,398,131	19.5	\$ 8,152,861	19.5
Property taxes, levied for debt service	6,866,917	15.9	6,514,095	15.5
Property taxes, levied for sinking fund	1,257,713	2.9	1,200,699	2.9
Investment earnings	728,105	1.7	1,006,999	2.4
State sources	20,679,768	47.9	20,366,060	48.6
County special education allocation	2,830,921	6.6	2,382,117	5.7
Other	313,099	0.7	298,954	0.7
Total general revenues	<u>41,074,654</u>	<u>95.2</u>	<u>39,921,785</u>	<u>95.3</u>
Program revenues:				
Charges for services	819,141	1.9	837,548	2.0
Operating grants	1,257,634	2.9	1,146,319	2.7
Total revenues	<u>\$ 43,151,429</u>	<u>100.0</u>	<u>\$ 41,905,652</u>	<u>100.0</u>
Function/program expenses:				
Instruction	\$ 20,003,263	50.3	\$ 22,723,048	53.8
Support services	12,072,309	30.4	12,009,853	28.4
Community services	24,735	0.1	29,182	0.1
Food services	865,798	2.2	914,522	2.2
Athletics	690,054	1.7	708,777	1.7
Interest on long-term debt	3,975,247	10.0	4,448,694	10.5
Unallocated depreciation	2,121,566	5.3	1,409,597	3.3
Total expenses	<u>\$ 39,752,972</u>	<u>100.0</u>	<u>\$ 42,243,673</u>	<u>100.0</u>

Significant revenues and expenditures are discussed in the segments below:

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006



1. Property Taxes

The District levies various millages on property taxes for general operations, debt service, and building and site repairs. Each millage, except those for debt service, is subject to mandatory reductions as required by the Headlee Amendment. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annual taxable valuation increases are capped at the rate of the prior year's Consumer Price Index or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is 50% of the property's market value.

The District receives settlements from Ingham and Clinton counties on all outstanding *real* property taxes at the end of each fiscal year. The amount of unpaid *personal* property taxes at June 30, 2006 was approximately \$24,800, or .29% of the total General Fund levy.

The following schedule summarizes the millages levied for the past five years:

Fiscal year	All property supplemental operating mills levied	Non-homestead operating mills levied	All property debt service mills levied	All property building & site mills levied
2005 - 2006	0.8567	17.1433	7.0000	1.2920
2004 - 2005	0.9472	17.0528	7.0000	1.3000
2003 - 2004	0.9609	17.0391	7.0000	1.2676
2002 - 2003	1.0775	16.9225	7.0000	1.2716
2001 - 2002	1.1417	16.8583	7.0000	1.2788

The following schedule summarizes the property taxes generated for the past five years (these amount have been calculated using the latest taxable values known for each fiscal year and are subject to change each September when revised valuations are determined):

Fiscal year	All property supplemental operating mills levied	Non-homestead operating mills levied	All property debt service mills levied	All property building & site mills levied
2005 - 2006	\$ 835,622	\$ 7,617,797	\$ 6,827,771	\$ 1,260,211
2004 - 2005	873,907	7,259,137	6,458,347	1,199,407
2003 - 2004	839,352	6,858,428	6,114,540	1,107,256
2002 - 2003	893,335	6,391,953	5,803,569	1,054,260
2001 - 2002	896,338	6,016,510	5,495,636	1,003,974

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006



2. State Sources

Per the State School Aid Act the State of Michigan funds school districts on a per pupil allowance based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count (the fourth Wednesday of September) and 25% of the prior year's supplemental count (the second Wednesday of February). The District's per pupil allowance for fiscal year 2006 was \$8,307.

The following schedule summarizes the District's per pupil allowance over the past five years (figures include the 20j hold harmless amount):

<u>Fiscal year</u>	<u>Per pupil allowance</u>	<u>\$ increase from prior year</u>
2005 - 2006	\$ 8,307	\$ 175
2004 - 2005	8,132	
2003 - 2004	8,132	
2002 - 2003	8,132	200
2001 - 2002	7,932	300

Non-resident pupils that attend the District via School of Choice (SOC) program are funded at the per pupil allowance of their resident district. The majority of the District's SOC pupils are funded at a lower per pupil amount than the \$8,307 the District receives for its resident pupils.

In fiscal year 2003-04 and 2002-03 the State of Michigan enacted a pro-ration to the State School Aid in order to balance the State's budget. A pro-ration of the per pupil allowance resulted in approximately \$264,000 and \$156,000 of loss revenue to the District for fiscal year ended 2004 and 2003 respectively. Thus, as indicated above, the flat increase in the per pupil allowance for fiscal year ended 2004 was actually a decrease in funding and the \$200 per pupil increase for fiscal year ended 2003 was not entirely realized.

3. Student Enrollment

The District's enrollment figures have gradually declined over the past several years. The following schedule summarizes the blended enrollment for each of the past five fiscal years:

<u>Fiscal year</u>	<u>Actual blended student FTE</u>	<u>FTE change from prior year</u>
2005 - 2006	3,465	(49)
2004 - 2005	3,514	(46)
2003 - 2004	3,560	(67)
2002 - 2003	3,627	(66)
2001 - 2002	3,693	96

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006



4. County Special Education Allocation

The District receives an allocation, based on a complex funding system, from Ingham Intermediate School District to assist with the education of students with special needs. For the fiscal year ended June 30, 2006, the District received \$2,830,921. This amount represents an increase of \$448,804 over the prior fiscal year. An increase in the total county-wide allocation and an increase in the December 1 special education pupil count contributed to the majority of this increase.

5. Expenditure Comparison By Function

The following schedule provides a comparison of fund expenditures for fiscal years 2005-2006 and 2004-2005:

Function	2005 - 2006 fiscal year	%	2004 - 2005 fiscal year	%
Basic programs	\$ 15,860,266	49.3	\$ 15,571,393	48.1
Special education	3,280,268	10.2	3,359,964	10.4
Compensatory education	920,348	2.9	897,470	2.8
Total instruction	20,060,882	62.4	19,828,827	61.3
Pupil support services	2,232,094	6.9	2,258,546	7.0
Instructional staff support services	1,495,169	4.7	1,279,008	4.0
School administration	2,427,939	7.6	2,274,243	7.0
Total instructional support	6,155,202	19.2	5,811,797	18.0
General administration	376,954	1.2	400,314	1.2
Business office	645,727	2.0	727,579	2.2
Operations and maintenance	3,106,084	9.7	3,381,286	10.5
Pupil transportation	749,384	2.3	657,799	2.0
Central	976,532	3.0	1,109,467	3.4
Community services	24,735	0.1	29,182	0.1
Outgoing transfers and loan payments	23,724	0.1	406,107	1.3
Total general fund	32,119,224	100.0	32,352,358	100.0
Food service fund	865,798		914,522	
Athletic fund	690,054		708,777	
Debt service fund	7,590,862		7,343,733	
Sinking fund	1,186,601		1,140,094	
2000 capital projects fund	5,432,989		14,998,808	
Total	\$ 47,885,528		\$ 57,458,292	

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006



General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education adopt the original budget for the upcoming fiscal year prior to the start of the fiscal year on July 1. Amendments made to the original budgets must be adopted by the Board of Education prior to the close of the fiscal year on June 30.

The District budgets according to the Michigan School Accounting Manual bulletin 1022. It is standard practice to amend its budget semi-annually, usually December and June.

The following schedule shows a five-year comparison of the general fund revenue and other financing sources final budget versus actual results:

Fiscal year	Revenues and Other Financing Sources		
	Budget	Actual	Variance
2005 - 2006	\$ 33,438,441	\$ 33,438,850	0.00%
2004 - 2005	32,062,669	32,201,040	0.43%
2003 - 2004	31,951,097	32,023,780	0.23%
2002 - 2003	32,971,385	32,897,357	-0.22%
2001 - 2002	32,859,225	32,851,721	-0.02%

Five year average actual over (under) budget 0.08%

The following schedule shows a five-year comparison of the general fund expenditures and other financing uses final budget versus actual results:

Fiscal year	Expenditures and Other Financing Uses		
	Budget	Actual	Variance
2005 - 2006	\$ 33,146,193	\$ 32,624,654	-1.57%
2004 - 2005	33,128,066	32,906,276	-0.67%
2003 - 2004	31,209,712	30,891,542	-1.02%
2002 - 2003	33,410,826	32,578,547	-2.49%
2001 - 2002	34,173,935	33,788,558	-1.13%

Five year average actual over (under) budget -1.38%

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006



Capital and Intangible Asset and Debt Administration

1. Capital and Intangible Assets

At June 30, 2006, the District had \$81,908,429 invested in a broad range of capital assets, including land, construction in progress, land improvements, buildings, various furniture and equipment, and school buses and other vehicles. This amount represents a net increase of \$3,569,039 due in large part to the 2000 Capital Projects construction and remodeling.

The following schedule shows the net book value of the District's capital assets by class type:

	2006			2005
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 875,544	\$ -	\$ 875,544	\$ 875,544
Construction in progress	188,489	-	188,489	46,451,444
Land improvements	7,532,689	(1,596,426)	5,936,263	1,612,592
Building and additions	84,447,052	(14,780,308)	69,666,744	25,136,590
Furniture and equipment	6,664,534	(2,228,318)	4,436,216	3,485,389
Transportation equipment	929,334	(683,559)	245,775	183,900
Total	<u>\$ 100,637,642</u>	<u>\$ (19,288,611)</u>	\$ 81,349,031	\$ 77,745,459
Issuance cost for bonds, net of amortization			<u>559,398</u>	<u>593,931</u>
Grand Total			<u>\$ 81,908,429</u>	<u>\$ 78,339,390</u>

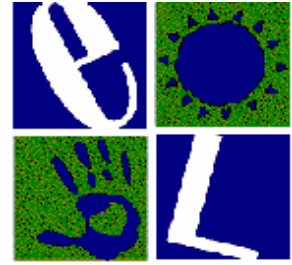
2. Long-term Debt

At June 30, 2006, the District had \$80,282,594 in general obligation bonded debt outstanding versus \$83,698,344 at June 30, 2005.

The District continues to participate in the School Bond Loan Fund (SBLF) program, borrowing for debt service repayment while maintaining the debt service millage at 7.0000 mills. During the fiscal year the District was able to meet its bonded debt obligations without additional borrowings under SBLF.

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006



The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The District's outstanding general obligation debt is significantly below this statutorily imposed limit.

Factors Bearing on the District's Future

Our elected officials and administration consider many factors when developing the District's fiscal year budget. The following items could significantly impact the District's financial health in the future:

- **Enrollment:** State Aid Foundation revenue received is driven by the District's blended student enrollment. The District is anticipating a continued decline in enrollment for the upcoming fiscal year 2007.
- **Foundation Allowance:** The per pupil foundation allowance the District receives from the State is anticipated to increase by \$210 for fiscal year 2007. If State revenues fall short of projections, districts across the state may face a pro-ration of their foundation allowances.
- **Health Insurance:** Districts across the State continue to incur rapid increases in the premiums they pay for employee benefits, in particular health insurance. Health insurance premiums increased 14.2% for the upcoming fiscal year 2007.
- **Retirement Rate:** The State increased the retirement rate to 17.74%, effective October 1, 2006, that is charged to districts to fund the retirement system. The new rate represents a 8.57% increase over the prior year's rate. It is anticipated that higher rates are on the horizon as the number of retirees increase.
- **County Special Education Allocation:** The county special education funding system was reviewed in fiscal year 2005-06. The result of the review was several modifications to the funding system. These modifications are projected to reduce the District's allocation in future years by approximately 9%.
- **Employee Contracts:** All union contracts expired June 30, 2006. Contract negotiations are on going.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances. If you have questions about this report, or need additional financial information, please contact the Business Office, School District of the City of East Lansing, 841 Timberlane Street, Suite A, East Lansing, MI 48823.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF NET ASSETS
JUNE 30, 2006

	ASSETS	<u>Governmental activities</u>
CURRENT ASSETS:		
Cash		\$ 7,580,748
Investments		3,176,026
Receivables:		
Accounts receivable		68,830
Accrued interest		7,219
Other governmental units including property taxes		4,073,323
Inventories		64,227
Prepaid expenditures		<u>80,757</u>
TOTAL CURRENT ASSETS		<u>15,051,130</u>
NONCURRENT ASSETS:		
Issuance cost for bonds, net of amortization		559,398
Capital assets		100,637,642
Less accumulated depreciation		<u>(19,288,611)</u>
TOTAL NONCURRENT ASSETS		<u>81,908,429</u>
TOTAL ASSETS		<u><u>\$ 96,959,559</u></u>

See notes to financial statements.

	Governmental activities
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 983,596
Accrued interest	625,223
Accrued salaries and related items	3,248,869
Deferred revenue	18,998
Due to other governmental units	10,171
Current portion of long-term obligations	3,683,909
Current portion of employee compensated absences and severance benefits	<u>154,844</u>
TOTAL CURRENT LIABILITIES	<u>8,725,610</u>
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	76,640,413
School bond loan fund	3,649,938
Noncurrent portion of compensated absences and severance benefits	<u>6,749,387</u>
TOTAL NONCURRENT LIABILITIES	<u>87,039,738</u>
TOTAL LIABILITIES	<u>95,765,348</u>
NET ASSETS:	
Invested in capital assets, net of related debt	1,799,955
Restricted for capital projects (sinking fund)	2,131,729
Unrestricted	<u>(2,737,473)</u>
TOTAL NET ASSETS	<u>1,194,211</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 96,959,559</u></u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 20,003,263	\$	\$ 610,557	\$ (19,392,706)
Support services	12,072,309	105,448	281,467	(11,685,394)
Community services	24,735	25,667	2,089	3,021
Food services	865,798	502,956	363,521	679
Athletics	690,054	185,070		(504,984)
Interest on long-term debt	3,975,247			(3,975,247)
Unallocated depreciation	2,121,566			(2,121,566)
Total governmental activities	<u>\$ 39,752,972</u>	<u>\$ 819,141</u>	<u>\$ 1,257,634</u>	<u>(37,676,197)</u>
General revenues:				
Property taxes, levied for general purposes				8,398,131
Property taxes, levied for debt service				6,866,917
Property taxes, levied for sinking fund				1,257,713
Investment earnings				728,105
State sources				20,679,768
Ingham ISD allocation				2,830,921
Other				313,099
Total general revenues				<u>41,074,654</u>
CHANGE IN NET ASSETS				<u>3,398,457</u>
NET ASSETS (DEFICIT), beginning of year				<u>(2,204,246)</u>
NET ASSETS, end of year				<u>\$ 1,194,211</u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General fund	Sinking fund	2000 capital projects funds	Other nonmajor governmental funds	Total governmental funds
ASSETS					
ASSETS:					
Cash	\$ 1,998,281	\$ 775,888	\$ 4,547,224	\$ 259,355	\$ 7,580,748
Investments	1,822,423	1,353,603			3,176,026
Receivables:					
Accounts receivable	50,873		13,636	4,321	68,830
Accrued interest	3,938	3,281			7,219
Other governmental units including property taxes	4,066,777	51		6,495	4,073,323
Due from other funds		29,684		363,284	392,968
Inventories	45,486			18,741	64,227
Prepaid expenditures	71,963			8,794	80,757
TOTAL ASSETS	\$ 8,059,741	\$ 2,162,507	\$ 4,560,860	\$ 660,990	\$ 15,444,098
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 254,990	\$ 30,778	\$ 695,074	\$ 2,754	\$ 983,596
Accrued salaries and related items	3,237,607			11,262	3,248,869
Deferred revenue	186,382			14,476	200,858
Due to other funds	190,512			202,456	392,968
Due to other governmental units	10,171				10,171
TOTAL LIABILITIES	3,879,662	30,778	695,074	230,948	4,836,462
FUND BALANCES:					
Reserved for:					
Debt service				404,832	404,832
Inventories	45,486			18,741	64,227
Prepaid expenditures	71,963			8,656	80,619
2000 capital projects fund			3,865,786		3,865,786
Sinking fund		2,131,729			2,131,729
Deferred retirement incentives	226,149				226,149

	General fund	Sinking fund	2000 capital projects funds	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES (Concluded):					
Designated	\$ 41,728	\$	\$	\$	\$ 41,728
Designated for subsequent year expenditures	410,903				410,903
Total reserved or designated	796,229	2,131,729	3,865,786	432,229	7,225,973
Unreserved and undesignated	3,383,850			(2,187)	3,381,663
TOTAL FUND BALANCES	4,180,079	2,131,729	3,865,786	430,042	10,607,636
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,059,741	\$ 2,162,507	\$ 4,560,860	\$ 660,990	\$ 15,444,098
Total Governmental Fund Balances					\$ 10,607,636

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:					
The cost of the capital assets is				\$ 100,637,642	
Accumulated depreciation is				(19,288,611)	
					81,349,031
Revenue not recorded in the funds due to not being collected until after September 1, 2006:					
Special Education payment due from IISD					125,806
Asbestos settlement receivable					32,294
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Bonds payable					(80,101,728)
Deferred bond premiums					(3,815,258)
Deferred loss on bond refunding					3,592,664
Issuance costs for bonds					559,398
School bond loan payable					(3,649,938)
Compensated absences					(6,904,231)
Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid					(625,223)
Balance of taxes receivable at June 30, 2006 less allowance for doubtful accounts expected to be collected after September 1, 2006					23,760
Net assets of governmental activities					\$ 1,194,211

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006**

	General fund	Sinking fund	2000 Capital projects fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:					
Local sources:					
Property taxes	\$ 8,389,894	\$ 1,257,713	\$	\$ 6,866,917	\$ 16,514,524
Payment in lieu of taxes		3,929		21,286	25,215
Penalties and interest on delinquent taxes	9,329	875		4,735	14,939
M.S.U. reimbursement				105,448	105,448
Investment earnings	194,462	86,704	280,810	151,190	713,166
Food sales and athletic admissions				592,568	592,568
Other	312,101			96,908	409,009
Total local revenues	8,905,786	1,349,221	280,810	7,839,052	18,374,869
State sources	20,673,684			49,088	20,722,772
Federal sources	894,113			320,517	1,214,630
Incoming transfers and other transactions	2,809,692				2,809,692
Total revenues	33,283,275	1,349,221	280,810	8,208,657	43,121,963
EXPENDITURES:					
Current:					
Instruction:					
Basic programs	15,860,266				15,860,266
Added needs	4,200,616				4,200,616
Total instruction	20,060,882				20,060,882
Support services:					
Pupil	2,232,094				2,232,094
Instructional staff	1,495,169				1,495,169
School administration	2,427,939				2,427,939
General administration	376,954				376,954
Business	645,727				645,727
	General fund	Sinking fund	2000 Capital projects fund	Other nonmajor governmental funds	Total governmental funds
EXPENDITURES (Concluded):					
Support services (Concluded):					
Operation and maintenance	\$ 3,106,084	\$	\$	\$	\$ 3,106,084
Pupil transportation	749,384				749,384
Central	976,532				976,532
Total support services	12,009,883				12,009,883
Athletics				690,054	690,054
Community services	24,735				24,735
Food service				865,798	865,798
Capital outlay and arbitrage		1,186,601	5,432,989		6,619,590
Outgoing transfers and other transactions	3,588				3,588
Debt service:					
Principal retirement	20,136			2,116,131	2,136,267
Interest and fiscal charges				5,473,120	5,473,120
Professional fees				1,611	1,611
Total expenditures	32,119,224	1,186,601	5,432,989	9,146,714	47,885,528
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
	1,164,051	162,620	(5,152,179)	(938,057)	(4,763,565)
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of school property	74,433				74,433
Operating transfers in	81,142			722,886	804,028
Operating transfers out	(505,430)			(298,598)	(804,028)
Total other financing sources (uses)	(349,855)			424,288	74,433
NET CHANGE IN FUND BALANCES					
	814,196	162,620	(5,152,179)	(513,769)	(4,689,132)
FUND BALANCES:					
Beginning of year	3,365,883	1,969,109	9,017,965	943,811	15,296,768
End of year	\$ 4,180,079	\$ 2,131,729	\$ 3,865,786	\$ 430,042	\$ 10,607,636

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances total governmental funds	\$ (4,689,132)
---	-----------------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(2,121,566)
Capital outlay	5,915,543

Proceeds from sale of school property	(74,433)
Gain (loss) on the sale of school property	(115,972)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	953,134
Accrued interest payable end of the year	(625,223)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities):

Payments on debt and capital appreciation bonds interest	3,407,240
Amortization of bond premiums	207,312
Amortization of loss on bond refunding	(178,665)
Amortization of bond issuance cost	(34,533)
Long-term interest on school bond loan fund	(143,176)
Change in liability for arbitrage	807,255

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue beginning of the year	(152,394)
Accrued revenue end of the year	181,860

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and accumulated severance benefit beginning of the year	6,965,438
Accrued compensated absences and accumulated severance benefit end of the year	<u>(6,904,231)</u>

Change in net assets of governmental activities	<u><u>\$ 3,398,457</u></u>
--	-----------------------------------

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2006**

	<u>Agency funds</u>
ASSETS	
Investments	\$ 446,093
Accounts receivable	<u>2,490</u>
TOTAL ASSETS	<u><u>\$ 448,583</u></u>
LIABILITIES	
Accounts payable	\$ 15,129
Accrued salaries and related items	2,480
Due to student, school, and other groups	<u>430,974</u>
TOTAL LIABILITIES	<u><u>\$ 448,583</u></u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School District of the City of East Lansing have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District of the City of East Lansing (the "District") is governed by the School District of the City of East Lansing Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *2000 capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the 2000 School Bonds activity:

Revenue and transfer in of \$1,000,000	<u><u>\$ 13,942,397</u></u>
Expenditures and transfers	<u><u>\$ 76,146,076</u></u>

The above revenue figure does not include original 2000 School Bond proceeds of \$ 66,069,465.

The capital projects *sinking fund* records capital project activities funded with sinking fund millage and other sources. For the sinking fund, the District has complied with the applicable provision of §1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The 1991, 2000, 2005 and 2005 Series B *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund:	
Operating - Non-homestead	17.1433
Supplemental - Non-homestead	0.8567
Debt service fund - Homestead and non-homestead	7.0000
Sinking fund - Homestead and non-homestead	1.2920

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when received. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District’s capitalization policy is to capitalize individual amounts exceeding \$5,000. Group purchases are evaluated on a case-by-case basis.

6. Compensated Absences

The District’s contracts generally provide for retirement incentive, vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Fitch's Rating	%
MBIA External Investment pool - CLASS	\$ 214,653	0.0027	AAA-V1	100%
Total fair value	<u>\$ 214,653</u>			<u>100%</u>
Portfolio weighted average maturity		<u>0.0027</u>		
1 day maturity equals 0.0027, one year equals 1.00				

The District voluntarily invests certain excess funds in pooled short term investment funds which included money market funds. One of the pooled investment funds utilized by the District is MBIA. MBIA is an external pooled investment fund of "qualified" investments for Michigan school districts. MBIA is not regulated nor is it registered with the SEC. MBIA reports as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$10,686,214 of the District's bank balance of \$10,986,214 was exposed to custodial credit risk because it was uninsured and uncollateralized. Included in the above deposit figures are Bank money market deposits of \$243,591 and certificates of deposit of \$2,750,000 and other interest bearing deposits.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts as previously reported in Note 3:

Cash on hand	\$ 2,000
Deposits - including fiduciary funds of \$446,093	10,986,214
Investments	<u>214,653</u>
	<u><u>\$ 11,202,867</u></u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 446,093
Cash - District wide	7,580,748
Investments - District wide	<u>3,176,026</u>
	<u><u>\$ 11,202,867</u></u>

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006 consist of the following:

Other governmental units:

State aid	\$ 3,711,510
Federal revenue	142,938
Ingham Intermediate School District	138,636
Property taxes	24,800
Other	<u>55,439</u>
	<u><u>\$ 4,073,323</u></u>

Amounts due from other governmental units include amounts due from federal, state and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets at June 30, 2006 is as follows:

	Balance July 1, 2005	Additions	Reclassifications/ deletions	Balance June 30, 2006
Assets not being depreciated:				
Land	\$ 875,544	\$	\$	\$ 875,544
Construction in progress	46,451,444		46,262,955	188,489
	<u>47,326,988</u>			<u>1,064,033</u>
Other capital assets:				
Land improvements	3,007,436	4,525,253		7,532,689
Buildings and additions	38,577,665	46,080,947	211,560	84,447,052
Furniture and equipment	5,204,408	1,460,126		6,664,534
Vehicles	817,160	112,174		929,334
Total other capital assets	<u>47,606,669</u>	<u>52,178,500</u>	<u>211,560</u>	<u>99,573,609</u>
Accumulated depreciation:				
Land improvements	1,394,844	201,582		1,596,426
Building and improvements	13,441,075	1,360,388	21,155	14,780,308
Furniture and equipment	1,719,019	509,299		2,228,318
Vehicles	633,262	50,297		683,559
Total accumulated depreciation	<u>17,188,200</u>	<u>2,121,566</u>	<u>21,155</u>	<u>19,288,611</u>
Net other capital assets	<u>30,418,469</u>	<u>50,056,934</u>	<u>190,405</u>	<u>80,284,998</u>
Net capital assets	<u>\$ 77,745,457</u>	<u>\$ 50,056,934</u>	<u>\$ 190,405</u>	<u>\$ 81,349,031</u>

Amounts included in capital assets include only items greater than \$5,000.

Depreciation for the fiscal year ended June 30, 2006 amounted to \$2,121,566. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation debts currently outstanding at June 30, 2006 are as follows:

2000 general obligation bonds due in annual installments of \$1,175,000 to \$1,750,000 through May 1, 2010, with interest at 4.55% to 4.80%.	\$ 5,875,000
2005 general obligation bonds due in annual installments of \$1,780,000 to \$2,795,000 through May 1, 2014, with interest at 3.00% to 5.00%.	18,815,000
2005 Series B general obligation bonds due in annual installments of \$105,000 to \$3,045,000 through May 1, 2030, with interest at 3.00% to 5.00%.	55,370,000
Less: Loss on bond refunding	(3,592,664)
Plus: Premium on 2005 issuance	<u>3,815,258</u>
Total general obligation	80,282,594
Borrowing from the State of Michigan School Bond Loan Fund including interest due at the times determined by the State Treasurer, interest at 4.5% at June 30, 2006.	3,649,938
Promissory note with the United States Environmental Protection Agency payable in semi-annual installments of \$6,654 commencing May 30, 1991 and continuing until May 30, 2009. The promissory note is provided under a federal program and is interest free.	41,728
Employee compensated absences	<u>6,904,231</u>
Total general long-term debt	<u><u>\$ 90,878,491</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2006, \$73,270,000 of bonds outstanding are considered defeased.

The annual requirements to amortize the long-term obligations as of June 30, 2006, including interest of \$45,919,076 are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 3,683,909	\$ 3,751,338	\$ 7,435,247
2008	3,833,909	3,622,438	7,456,347
2009	3,968,910	3,484,625	7,453,535
2010	4,115,000	3,314,750	7,429,750
2011	4,290,000	3,153,600	7,443,600
2012-2016	18,650,000	12,838,075	31,488,075
2017-2021	14,395,000	8,971,000	23,366,000
2022-2026	15,135,000	5,281,500	20,416,500
2027-2030	12,030,000	1,501,750	13,531,750
	80,101,728	45,919,076	126,020,804
Loss on bond refunding	(3,592,664)		(3,592,664)
Unamortized premium on bond issuance	3,815,258		3,815,258
Accumulated compensated absences	6,904,231		6,904,231
Due to school bond loan fund	3,649,938		3,649,938
	<u>\$ 90,878,491</u>	<u>\$ 45,919,076</u>	<u>\$ 136,797,567</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

An amount of \$404,832 is available in the debt service funds to service the general obligation debt.

The following is a summary of long-term obligations for the District for the year ended June 30, 2006:

	Compensated absences	Arbitrage	School bond loan fund	Bonds and other debt	Total
Balance, July 1, 2005	\$ 6,965,438	\$ 807,255	\$ 3,506,762	\$ 83,760,209	\$ 95,039,664
Additions	383,482		143,176		526,658
Deletions	(444,689)	(807,255)		(3,435,887)	(4,687,831)
Balance, June 30, 2006	6,904,231		3,649,938	80,324,322	90,878,491
Less current portion	(154,844)			(3,683,909)	(3,838,753)
Total due after one year	<u>\$ 6,749,387</u>	<u>\$</u>	<u>\$ 3,649,938</u>	<u>\$ 76,640,413</u>	<u>\$ 87,039,738</u>

NOTE 7 - OPERATING LEASES

The District leases copy machines under an operating lease agreement with the lease starting August 18, 2003 and ending August 18, 2008, with monthly payments of \$11,726 a month. Expense for copy lease for the year ended June 30, 2006 was \$140,714. Future operating lease commitments are as follows:

Year ending June 30,	Copier lease
2007	\$ 140,714
2008	140,714
2009	16,722
Total	<u>\$ 298,150</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 14.87% of payroll through September 30, 2005, and 16.34% effective October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2006, 2005 and 2004 were \$3,008,080, \$2,787,928 and \$2,384,691, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Amounts due to and from other funds at June 30, 2006 are as follows:

Receivable fund	Amount	Payable fund	Amount
Sinking fund	\$ 29,684	General fund	\$ 190,512
1991 Debt fund	52,021	1991 Debt fund	176,456
2000 Debt fund	31,837	Series B 2005 Debt fund	26,000
2005 Debt fund	219,058		
Series B 2005 Debt fund	60,368		
	\$ 392,968		\$ 392,968

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

NOTE 11 - TRANSFERS

The general fund transferred \$505,430 to the athletic fund to subsidize operations. The school lunch fund transferred \$81,142 to the general fund. The transfer from the school lunch fund to the general fund was made to cover indirect cost paid for by the general fund that relate to school lunch activities. These activities include utilities, phone, sewage, custodial, lunch room monitors, building repairs and maintenance of the food service area. The 1991 debt service fund transferred \$217,456 to the 2005 debt fund after final payment made at June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local sources	\$ 8,761,557	\$ 8,791,661	\$ 8,905,786	\$ 114,125
State sources	20,221,534	20,673,949	20,673,684	(265)
Federal sources	770,310	987,935	894,113	(93,822)
Incoming transfers and other transactions	2,297,155	2,830,463	2,809,692	(20,771)
Total revenues	32,050,556	33,284,008	33,283,275	(733)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	15,688,972	15,920,374	15,860,266	60,108
Added needs	4,113,763	4,241,144	4,200,616	40,528
Total instruction	19,802,735	20,161,518	20,060,882	100,636
Support services:				
Pupil	2,224,206	2,264,212	2,232,094	32,118
Instructional staff	1,315,283	1,586,779	1,495,169	91,610
General administration	339,454	382,328	376,954	5,374
School administration	2,300,622	2,434,522	2,427,939	6,583
Business	625,976	661,430	645,727	15,703
Operation and maintenance	3,157,119	3,332,354	3,106,084	226,270
Pupil transportation	759,233	749,357	749,384	(27)
Central	1,019,416	1,008,079	976,532	31,547
Total support services	11,741,309	12,419,061	12,009,883	409,178
Community services	40,321	36,147	24,735	11,412
Outgoing transfers and other transactions	311,699	3,900	3,588	312
Payment on loans	20,137	20,137	20,136	1
Total expenditures	31,916,201	32,640,763	32,119,224	521,539
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	134,355	643,245	1,164,051	520,806
OTHER FINANCING SOURCES (USES):				
Sale of school property	4,000	74,433	74,433	
Operating transfer from other funds	65,308	80,000	81,142	1,142
Operating transfers to other funds	(505,430)	(505,430)	(505,430)	
Total other financing sources (uses)	(436,122)	(350,997)	(349,855)	1,142
NET CHANGE IN FUND BALANCE	\$ (301,767)	\$ 292,248	814,196	\$ 521,948
FUND BALANCE:				
Beginning of year			3,365,883	
End of year			<u>\$ 4,180,079</u>	

ADDITIONAL INFORMATION

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2006**

	<u>Special revenue funds</u>	<u>Debt service funds</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
ASSETS:			
Cash	\$ 15,764	\$ 243,591	\$ 259,355
Accounts receivable	4,321		4,321
Due from other funds		363,284	363,284
Due from other governmental units	6,220	275	6,495
Inventories	18,741		18,741
Prepaid expenditures	8,656	138	8,794
	<u>53,702</u>	<u>607,288</u>	<u>660,990</u>
TOTAL ASSETS	<u>\$ 53,702</u>	<u>\$ 607,288</u>	<u>\$ 660,990</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 2,754	\$	\$ 2,754
Due to other funds		202,456	202,456
Accrued salaries and related items	11,262		11,262
Deferred cafeteria revenue	14,476		14,476
	<u>28,492</u>	<u>202,456</u>	<u>230,948</u>
TOTAL LIABILITIES	<u>28,492</u>	<u>202,456</u>	<u>230,948</u>
FUND BALANCES:			
Reserved for:			
Debt service		404,832	404,832
Inventories	18,741		18,741
Prepaid expenditures	8,656		8,656
Unreserved and undesignated	(2,187)		(2,187)
	<u>25,210</u>	<u>404,832</u>	<u>430,042</u>
TOTAL FUND BALANCES	<u>25,210</u>	<u>404,832</u>	<u>430,042</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 53,702</u>	<u>\$ 607,288</u>	<u>\$ 660,990</u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2006

	Special revenue funds	Debt service funds	Total nonmajor governmental funds
REVENUES:			
Local sources:			
Property taxes	\$	\$ 6,866,917	\$ 6,866,917
Payment in lieu of taxes		21,286	21,286
Penalties and interest on delinquent taxes		4,735	4,735
M.S.U. reimbursement		105,448	105,448
Investment earnings		151,190	151,190
Food sales and athletic admissions	592,568		592,568
Other	96,908		96,908
Total local sources	689,476	7,149,576	7,839,052
State sources	49,088		49,088
Federal sources	320,517		320,517
Total revenues	1,059,081	7,149,576	8,208,657
EXPENDITURES:			
Athletics activities	690,054		690,054
Food service activities	865,798		865,798
Debt service:			
Principal repayment		2,116,131	2,116,131
Interest expense		5,473,120	5,473,120
Professional fees		1,611	1,611
Total expenditures	1,555,852	7,590,862	9,146,714
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(496,771)	(441,286)	(938,057)
OTHER FINANCING SOURCES (USES):			
Transfer from other funds	505,430	217,456	722,886
Transfer to other funds	(81,142)	(217,456)	(298,598)
Total other financing sources	424,288		424,288
NET CHANGE IN FUND BALANCES	(72,483)	(441,286)	(513,769)
FUND BALANCES:			
Beginning of year	97,693	846,118	943,811
End of year	\$ 25,210	\$ 404,832	\$ 430,042

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
DETAIL OF REVENUE
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
REVENUE:		
Local sources		
Property taxes, less refunds	\$ 8,389,894	\$ 8,196,840
Penalties and interest on delinquent property taxes	9,329	9,498
Interest on investments	194,462	101,985
Other community programs	25,667	30,843
Facility rent	175,472	144,897
Local grants	45,766	50,833
Asbestos	3,879	
Miscellaneous	61,317	51,689
Total local sources	<u>8,905,786</u>	<u>8,586,585</u>
State sources:		
Foundation allowance	14,521,811	15,162,157
Proposal A discretionary	4,205,285	3,699,586
Special education Headlee	1,883,416	1,402,373
Prior year unrestricted adjustments	29,771	(15,448)
Prior year restricted adjustments		71,673
Durant II	33,401	33,401
Other		1,172
Total state sources	<u>20,673,684</u>	<u>20,354,914</u>
Federal sources:		
Title I - Improving Basic Programs	442,186	551,712
Title II Part A - Improving Teacher Quality	155,918	190,706
Title II Part D - Enhancing Ed. through Technology	7,288	8,608
Title III - Limited English Proficient	19,777	8,900
Title V Part A - Innovative Programs	1,429	2,150
Individuals with Disabilities Education Act - PPI	21,822	24,145
Safe and Drug Free Schools	5,028	1,296
Homeland security	10,663	13,335
Carole M. White Physical Education Program	229,852	
Other	150	975
Total federal sources	<u>894,113</u>	<u>801,827</u>
Incoming transfers:		
Intermediate sources:		
Special education	2,803,073	2,345,755
Miscellaneous	6,619	23,250
Total incoming transfers	<u>2,809,692</u>	<u>2,369,005</u>
TOTAL REVENUE	<u><u>\$ 33,283,275</u></u>	<u><u>\$ 32,112,331</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
DETAIL OF EXPENDITURES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
EXPENDITURES:		
Instruction:		
Basic programs:		
Elementary	\$ 6,217,911	\$ 5,971,975
Middle school	1,674,788	1,668,903
High school	3,637,971	3,643,938
Employee benefits	4,326,514	4,286,577
Summer School	3,082	
	<u>15,860,266</u>	<u>15,571,393</u>
Total basic programs		
Added needs:		
Special education	2,138,790	2,210,571
Compensatory education	663,616	644,446
Employee benefits	1,398,210	1,402,417
	<u>4,200,616</u>	<u>4,257,434</u>
Total added needs		
Total instruction	<u>20,060,882</u>	<u>19,828,827</u>
Supporting services:		
Pupil:		
Guidance	447,593	452,826
Health	27,933	44,186
Psychological	128,667	127,170
Speech pathology	377,236	379,966
Social work	224,991	214,361
Teacher consultant	326,985	325,042
Other	100,515	95,615
Employee benefits	598,174	619,380
	<u>2,232,094</u>	<u>2,258,546</u>
Total pupil		
Instructional staff:		
Improvement of education	362,347	280,018
Library	362,154	348,339
Supervision and direction	417,678	321,764
Academic pupil assessment	24,938	23,749
Employee benefits	328,052	305,138
	<u>1,495,169</u>	<u>1,279,008</u>
Total instructional staff		

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
DETAIL OF EXPENDITURES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
EXPENDITURES (Continued):		
Supporting services (Continued):		
School administration:		
Office of the principal	\$ 1,773,386	\$ 1,638,911
Other	18,155	14,230
Employee benefits	<u>636,398</u>	<u>621,102</u>
Total school administration	<u>2,427,939</u>	<u>2,274,243</u>
Total instructional support services	<u>6,155,202</u>	<u>5,811,797</u>
General administration:		
Board of education	109,781	116,493
Executive administration	192,673	209,116
Employee benefits	<u>74,500</u>	<u>74,705</u>
Total general administration	<u>376,954</u>	<u>400,314</u>
Business:		
Fiscal	300,839	365,088
Internal service	195,596	173,870
Other	17,384	19,643
Employee benefits	<u>131,908</u>	<u>168,978</u>
Total business	<u>645,727</u>	<u>727,579</u>
Operations and maintenance:		
Operating building services	2,852,295	3,075,290
Security	94,865	110,023
Employee benefits	<u>158,924</u>	<u>195,973</u>
Total operations and maintenance	<u>3,106,084</u>	<u>3,381,286</u>
Pupil transportation:		
Transportation	575,610	487,696
Employee benefits	<u>173,774</u>	<u>170,103</u>
Total pupil transportation	<u>749,384</u>	<u>657,799</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
DETAIL OF EXPENDITURES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
EXPENDITURES (Concluded):		
Supporting services (Concluded):		
Central:		
Information	\$ 137,954	\$ 133,406
Personnel	177,395	201,835
Data processing	435,351	551,560
Pupil accounting	9,133	8,032
Employee benefits	<u>216,699</u>	<u>214,634</u>
Total central	<u>976,532</u>	<u>1,109,467</u>
Total non-instructional supporting services	<u>5,854,681</u>	<u>6,276,445</u>
Total supporting services	<u>12,009,883</u>	<u>12,088,242</u>
Community services:		
Recreation	22,767	25,809
Other	<u>1,968</u>	<u>3,373</u>
Total community services	<u>24,735</u>	<u>29,182</u>
Outgoing transfers:		
IISD teacher substitutes		316,809
Miscellaneous	<u>3,588</u>	<u>11,138</u>
Total outgoing transfers	<u>3,588</u>	<u>327,947</u>
Payment on loans	<u>20,136</u>	<u>78,160</u>
TOTAL EXPENDITURES	<u><u>\$ 32,119,224</u></u>	<u><u>\$ 32,352,358</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
DETAIL OF OTHER FINANCING SOURCES AND USES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OTHER FINANCING SOURCES:		
Transfer in from other funds:		
Food service	\$ 81,142	\$ 80,455
Sale of school property	<u>74,433</u>	<u>8,254</u>
TOTAL OTHER FINANCING SOURCES	<u><u>\$ 155,575</u></u>	<u><u>\$ 88,709</u></u>
 OTHER FINANCING USES:		
Transfers out to other funds:		
High school athletics	<u><u>\$ 505,430</u></u>	<u><u>\$ 553,918</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

ASSETS	<u>Athletics</u>	<u>Food service</u>	<u>Totals</u>
Cash	\$ 6,429	\$ 9,335	\$ 15,764
Accounts receivable		4,321	4,321
Due from other governmental units		6,220	6,220
Inventories		18,741	18,741
Prepaid expenditures	8,100	556	8,656
	<u>8,100</u>	<u>556</u>	<u>8,656</u>
TOTAL ASSETS	<u><u>\$ 14,529</u></u>	<u><u>\$ 39,173</u></u>	<u><u>\$ 53,702</u></u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 224	\$ 2,530	\$ 2,754
Accrued salaries and related items	5,472	5,790	11,262
Deferred cafeteria revenue		14,476	14,476
	<u>5,696</u>	<u>14,476</u>	<u>14,476</u>
Total liabilities	<u>5,696</u>	<u>22,796</u>	<u>28,492</u>
Fund balances:			
Reserved for:			
Inventories		18,741	18,741
Prepaid expenditures	8,100	556	8,656
Unreserved and undesignated	733	(2,920)	(2,187)
	<u>8,833</u>	<u>(2,920)</u>	<u>(2,187)</u>
Total fund balances	<u>8,833</u>	<u>16,377</u>	<u>25,210</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 14,529</u></u>	<u><u>\$ 39,173</u></u>	<u><u>\$ 53,702</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006**

	Athletics	Food service	Totals
REVENUES:			
Local:			
Athletic admissions	\$ 89,612	\$	\$ 89,612
Activity and insurance fees	95,458		95,458
Food sales		502,956	502,956
Other	1,450		1,450
State aid		49,088	49,088
Federal aid		320,517	320,517
	<hr/>	<hr/>	<hr/>
Total revenues	186,520	872,561	1,059,081
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Salaries and wages	401,806	271,795	673,601
Employee benefits	111,095	144,279	255,374
Cost of goods sold		368,366	368,366
Contracted services	105,052	43,933	148,985
Materials and supplies	60,223	29,577	89,800
Capital outlay		4,544	4,544
Other	11,878	3,304	15,182
	<hr/>	<hr/>	<hr/>
Total expenditures	690,054	865,798	1,555,852
	<hr/>	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(503,534)	6,763	(496,771)
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES):			
Transfer from other funds	505,430		505,430
Transfer to other funds		(81,142)	(81,142)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	505,430	(81,142)	424,288
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	1,896	(74,379)	(72,483)
	<hr/>	<hr/>	<hr/>
FUND BALANCES, beginning of year	6,937	90,756	97,693
	<hr/>	<hr/>	<hr/>
FUND BALANCES, end of year	<u>\$ 8,833</u>	<u>\$ 16,377</u>	<u>\$ 25,210</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

ASSETS	<u>1991 Debt</u>	<u>2000 Debt</u>	<u>2005 Debt</u>	<u>Series B 2005 Debt</u>	<u>Totals</u>
Cash	\$ 124,373	\$ 85,521	\$ 13,394	\$ 20,303	\$ 243,591
Due from other funds	52,021	31,837	219,058	60,368	363,284
Due from other governmental units	62	63	55	95	275
Prepaid expenditures	<u> </u>	<u>138</u>	<u> </u>	<u> </u>	<u>138</u>
TOTAL ASSETS	<u>\$ 176,456</u>	<u>\$ 117,559</u>	<u>\$ 232,507</u>	<u>\$ 80,766</u>	<u>\$ 607,288</u>
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	\$ 176,456	\$	\$	\$ 26,000	\$ 202,456
Fund balances:					
Reserved for debt service	<u> </u>	<u>117,559</u>	<u>232,507</u>	<u>54,766</u>	<u>404,832</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 176,456</u>	<u>\$ 117,559</u>	<u>\$ 232,507</u>	<u>\$ 80,766</u>	<u>\$ 607,288</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006**

	1991 Debt	2000 Debt	2005 Debt	Series B 2005 Debt	Totals
REVENUES:					
Property taxes	\$ 2,221,081	\$ 1,359,204	\$ 708,933	\$ 2,577,699	\$ 6,866,917
Payment in lieu of taxes	6,885	4,214	2,197	7,990	21,286
Penalties and interest on delinquent taxes	1,931	2,387	90	327	4,735
M.S.U. reimbursement	105,448				105,448
Interest on investments	60,336	36,816	9,147	44,891	151,190
Total revenues	<u>2,395,681</u>	<u>1,402,621</u>	<u>720,367</u>	<u>2,630,907</u>	<u>7,149,576</u>
EXPENDITURES:					
Retirement of bonded debt	836,131	1,175,000		105,000	2,116,131
Interest on bonded debt	1,418,878	330,150	714,213	3,009,879	5,473,120
Paying agent fees	1,000	275	111	225	1,611
Total expenditures	<u>2,256,009</u>	<u>1,505,425</u>	<u>714,324</u>	<u>3,115,104</u>	<u>7,590,862</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>139,672</u>	<u>(102,804)</u>	<u>6,043</u>	<u>(484,197)</u>	<u>(441,286)</u>
OTHER FINANCING SOURCES (USES):					
Transfer from other funds			217,456		217,456
Transfer to other funds	<u>(217,456)</u>				<u>(217,456)</u>
Total other financing sources (uses)	<u>(217,456)</u>		<u>217,456</u>		
NET CHANGE IN FUND BALANCES	<u>(77,784)</u>	<u>(102,804)</u>	<u>223,499</u>	<u>(484,197)</u>	<u>(441,286)</u>
FUND BALANCES, beginning of year	<u>77,784</u>	<u>220,363</u>	<u>9,008</u>	<u>538,963</u>	<u>846,118</u>
FUND BALANCES, end of year	<u>\$</u>	<u>\$ 117,559</u>	<u>\$ 232,507</u>	<u>\$ 54,766</u>	<u>\$ 404,832</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
CAPITAL PROJECTS FUND - SINKING FUND
DETAIL OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2006**

EXEPENDITURES:

Donley Elementary	\$ 170,140
Glencairn Elementary	83,735
Marble Elementary	168,929
Pinecrest Elementary	262,816
Red Cedar Elementary	295,231
Whitehills Elementary	62,983
MacDonald Middle School	43,067
East Lansing High School	65,152
Timberlane facility	34,353
Athletic fields	<u>195</u>
 Total expenditures	 <u><u>\$ 1,186,601</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
2000 CAPITAL PROJECTS FUND
DETAIL OF EXPENDITURES
YEAR ENDED JUNE 30, 2006**

MacDonald Middle School:

Furnishings	\$ 2,166
Technology	95,496
Remodeling	40,337
Site development	13,791
Architectural fees and other costs	<u>2,943</u>

Total MacDonald Middle School	<u>154,733</u>
-------------------------------	----------------

East Lansing High School:

Furnishings	473,074
Technology	497,113
Remodeling	1,750,074
Site development	926,657
Architectural fees and other costs	<u>753,644</u>

Total East Lansing High School	<u>4,400,562</u>
--------------------------------	------------------

Administrative:

Furnishings	12,481
Technology	541
Architectural fees and other costs	<u>1,091</u>

Total administrative	<u>14,113</u>
----------------------	---------------

Pool:

Furnishings	50,134
Remodeling	60,466
Site development	20,363
Architectural fees and other costs	<u>732,618</u>

Total pool	<u>863,581</u>
------------	----------------

Total expenditures	<u><u>\$ 5,432,989</u></u>
--------------------	----------------------------

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
FIDUCIARY FUND - AGENCY FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006

	<u>High School</u>	<u>MacDonald</u>	<u>Elementary and other</u>	<u>Totals</u>
ASSETS				
Cash	\$ 290,074	\$ 43,701	\$ 112,318	\$ 446,093
Accounts receivable			2,490	2,490
	<u>290,074</u>	<u>43,701</u>	<u>114,808</u>	<u>448,583</u>
Total assets	<u>\$ 290,074</u>	<u>\$ 43,701</u>	<u>\$ 114,808</u>	<u>\$ 448,583</u>
LIABILITIES				
Accounts payable	\$ 11,301	\$ 76	\$ 3,752	\$ 15,129
Accrued salaries and related items	2,480			2,480
Due to student, school, and other groups	<u>276,293</u>	<u>43,625</u>	<u>111,056</u>	<u>430,974</u>
Total liabilities	<u>\$ 290,074</u>	<u>\$ 43,701</u>	<u>\$ 114,808</u>	<u>\$ 448,583</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
FIDUCIARY FUND - AGENCY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS BY SCHOOL
YEAR ENDED JUNE 30, 2006**

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2006</u>
East Lansing High School	\$ 218,750	\$ 463,435	\$ 405,892	\$ 276,293
MacDonald Middle School	33,285	116,299	105,958	43,626
Donley Elementary School	6,780	6,515	7,537	5,758
Glencairn Elementary School	10,553	25,955	26,135	10,373
Marble Elementary School	20,987	21,661	21,761	20,887
Pinecrest Elementary School	6,349	15,804	9,381	12,772
Red Cedar Elementary School	8,080	18,167	17,043	9,204
Whitehills Elementary School	8,094	33,292	29,553	11,833
Other	44,075	27,961	31,808	40,228
	<u>\$ 356,953</u>	<u>\$ 729,089</u>	<u>\$ 655,068</u>	<u>\$ 430,974</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINED BONDED DEBT SERVICE REQUIREMENTS
YEAR ENDED JUNE 30, 2006**

Year ending June 30,	2000 Debt	2005 Debt	2005 Series B Debt	Combined
2007	\$ 1,451,100	\$ 3,104,213	\$ 2,866,025	\$ 7,421,338
2008	1,422,050	3,152,512	2,867,875	7,442,437
2009	1,916,250	2,654,075	2,869,300	7,439,625
2010	1,834,000	2,730,475	2,865,275	7,429,750
2011		2,822,350	4,621,250	7,443,600
2012		2,907,825	4,532,500	7,440,325
2013		3,001,500	4,438,500	7,440,000
2014		1,846,750	4,734,500	6,581,250
2015			5,061,000	5,061,000
2016			4,965,500	4,965,500
2017			4,873,000	4,873,000
2018			4,778,250	4,778,250
2019			4,676,250	4,676,250
2020			4,572,250	4,572,250
2021			4,466,250	4,466,250
2022			4,353,250	4,353,250
2023			4,238,500	4,238,500
2024			4,097,000	4,097,000
2025			3,950,000	3,950,000
2026			3,777,750	3,777,750
2027			3,606,500	3,606,500
2028			3,481,250	3,481,250
2029			3,309,750	3,309,750
2030			3,134,250	3,134,250
	<u>\$ 6,623,400</u>	<u>\$ 22,219,700</u>	<u>\$ 97,135,975</u>	<u>\$ 125,979,075</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2000 DEBT
YEAR ENDED JUNE 30, 2006**

Bond issued to provide funds for erecting, furnishing and equipping additions to, and partially remodeling, furnishing and re-furnishing, equipping and re-equipping East Lansing High School and developing and improving outdoor physical education/athletic facilities; acquiring and installing educational technology; partially remodeling, furnishing and re-furnishing, equipping and re-equipping existing buildings, in part, for relocating the alternative high school program and to relocate the central office and support services; acquiring, developing and improving sites; erecting, furnishing and equipping additions to, and partially remodeling, furnishing and re-furnishing, equipping MacDonald Middle School, acquiring, installing and equipping technology therefore; developing and improving its outdoor physical education/athletic facilities and the site; erecting, furnishing and equipping a swimming pool addition to the East Lansing High School and developing and improving the site; and to pay the costs of issuing the Bonds.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$ 1,175,000	\$ 138,050	\$ 138,050	2007	\$ 1,451,100
1,200,000	111,025	111,025	2008	1,422,050
1,750,000	83,125	83,125	2009	1,916,250
1,750,000	42,000	42,000	2010	1,834,000
<u>\$ 5,875,000</u>	<u>\$ 374,200</u>	<u>\$ 374,200</u>		<u>\$ 6,623,400</u>

The above bonds have interest rates from 4.55% to 4.80%.

Total amount of original issue was \$66,080,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2005 DEBT (REFUNDING OF 1991 AND 1996 DEBT)
YEAR ENDED JUNE 30, 2006**

Bond issued to provide funds to advance refund all or a portion of the School District's outstanding 1991 School Building and Site Bonds and 1996 Refunding Bonds.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$ 2,390,000	\$ 357,106	\$ 357,107	2007	\$ 3,104,213
2,510,000	321,256	321,256	2008	3,152,512
2,090,000	282,037	282,038	2009	2,654,075
2,250,000	240,237	240,238	2010	2,730,475
2,415,000	203,675	203,675	2011	2,822,350
2,585,000	161,412	161,413	2012	2,907,825
2,795,000	103,250	103,250	2013	3,001,500
1,780,000	33,375	33,375	2014	1,846,750
<u>\$ 18,815,000</u>	<u>\$ 1,702,348</u>	<u>\$ 1,702,352</u>		<u>\$ 22,219,700</u>

The above bonds have interest rates from 3.00% to 5.00%.

Total amount of original issue was \$18,815,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2005 DEBT SERIES B (REFUNDING OF 2000 DEBT)
YEAR ENDED JUNE 30, 2006**

Bond issued to provide funds to advance refund a portion of the School District's outstanding 2000 School Building and Site Bonds.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$ 105,000	\$ 1,380,513	\$ 1,380,512	2007	\$ 2,866,025
110,000	1,378,938	1,378,937	2008	2,867,875
115,000	1,377,150	1,377,150	2009	2,869,300
115,000	1,375,138	1,375,137	2010	2,865,275
1,875,000	1,373,125	1,373,125	2011	4,621,250
1,880,000	1,326,250	1,326,250	2012	4,532,500
1,880,000	1,279,250	1,279,250	2013	4,438,500
2,270,000	1,232,250	1,232,250	2014	4,734,500
2,710,000	1,175,500	1,175,500	2015	5,061,000
2,750,000	1,107,750	1,107,750	2016	4,965,500
2,795,000	1,039,000	1,039,000	2017	4,873,000
2,840,000	969,125	969,125	2018	4,778,250
2,880,000	898,125	898,125	2019	4,676,250
2,920,000	826,125	826,125	2020	4,572,250
2,960,000	753,125	753,125	2021	4,466,250
2,995,000	679,125	679,125	2022	4,353,250
3,030,000	604,250	604,250	2023	4,238,500
3,040,000	528,500	528,500	2024	4,097,000
3,045,000	452,500	452,500	2025	3,950,000
3,025,000	376,375	376,375	2026	3,777,750
3,005,000	300,750	300,750	2027	3,606,500
3,030,000	225,625	225,625	2028	3,481,250
3,010,000	149,875	149,875	2029	3,309,750
2,985,000	74,625	74,625	2030	3,134,250
<u>\$ 55,370,000</u>	<u>\$ 20,882,989</u>	<u>\$ 20,882,986</u>		<u>\$ 97,135,975</u>

The above bonds have interest rates from 3.00% to 5.00%.

Total amount of original issue was \$55,475,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
INVESTMENTS
JUNE 30, 2006**

	<u>Interest rate</u>	<u>Amount</u>
General fund:		
LaSalle Bank	4.59%	\$ 211,373
Michigan Class Pool	5.05%	111,050
Flagstar Bank - Certificate of Deposit	5.25%	<u>1,500,000</u>
		<u>1,822,423</u>
Sinking fund:		
Flagstar Bank - Certificate of Deposit	5.25%	1,250,000
Michigan Class Pool	5.05%	<u>103,603</u>
		<u>1,353,603</u>
Total investments		<u><u>\$ 3,176,026</u></u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2006

CONTENTS

	<u>Page</u>
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	1 - 2
Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	3 - 4
Schedule of expenditures of federal awards	5 - 7
Notes to schedule of expenditures of federal awards.....	8
Schedule of findings and questioned costs	9
Schedule of prior audit findings.....	10



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

August 18, 2006

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the School District of the City of East Lansing as of and for the year ended June 30, 2006, which collectively comprise School District of the City of East Lansing's basic financial statements and issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District of the City of East Lansing's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

August 18, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District of the City of East Lansing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of School District of the City of East Lansing in a separate letter dated August 18, 2006.

This report is intended solely for the information and use of the board of education, management and U.S. Department of Education and Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Mamay, Costeusan & Ellis, P.C.

Certified Public Accountants



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raack
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

August 18, 2006

Compliance

We have audited the compliance of the School District of the City of East Lansing with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The School District of the City of East Lansing's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District of the City of East Lansing's management. Our responsibility is to express an opinion on the School District of the City of East Lansing's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District of the City of East Lansing's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School District of the City of East Lansing's compliance with those requirements.

In our opinion, the School District of the City of East Lansing complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

August 18, 2006

Internal Control Over Compliance

The management of the School District of the City of East Lansing is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District of the City of East Lansing's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of East Lansing as of and for the year ended June 30, 2006, and have issued our report thereon dated August 18, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2005	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Agriculture:</u>								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
National School Lunch Breakfast	10.553	051970 061970	\$ 30,585 33,481	\$	\$ 28,232	\$ 2,353 33,481	\$ 2,353 33,481	\$
			64,066		28,232	35,834	35,834	
National School Lunch	10.555	051950 051960 061950 061960	45,923 199,786 43,994 190,534		41,138 180,131	4,785 19,655 43,994 190,534	4,785 19,655 43,994 190,534	
			480,237		221,269	258,968	258,968	
Total Child Nutrition Cluster			544,303		249,501	294,802	294,802	
Food Distribution:								
Entitlement Commodities	10.550		24,080			24,080	24,080	
Bonus Commodities			1,635			1,635	1,635	
			25,715			25,715	25,715	
Total U.S. Department of Agriculture			570,018		249,501	320,517	320,517	
<u>U.S. Department of Education:</u>								
Passed through the Michigan Department of Education :								
Title I - Improving Basic Programs	84.010	051530-0405 051530-0506 061530-0506	468,061 9,113 476,167	35,231	466,831	36,462 9,113 339,792	1,231 9,113 431,842	92,050
			953,341	35,231	466,831	385,367	442,186	92,050

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2005	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Education (Continued):</u>								
Passed through the Michigan Department of Education (Concluded):								
Title V Part A - Innovative Programs	84.298	050250-0405 060250-0506	\$ 2,150 1,429	\$ 775	\$ 2,150	\$ 775 1,429	\$ 1,429	\$
			3,579	775	2,150	2,204	1,429	
Title II Part D - Enhancing Ed. Through Technology	84.318	054290-0405 054290-0506 064290-0506	8,608 3,519 8,883	4,230	8,608	4,230 3,519 3,625	3,519 3,769	144
			21,010	4,230	8,608	11,374	7,288	144
Title III - Limited English Proficient	84.365	050580-0405 050580-0506	13,506 15,824	4,407	8,900	9,013 10,359	4,606 15,171	4,812
			29,330	4,407	8,900	19,372	19,777	4,812
Title II Part A - Improving Teacher Quality	84.367	050520-0405 050520-0506 060520-0405	176,152 8,586 183,731	27,702	174,639	29,216 8,586 116,351	1,514 8,586 145,818	29,467
			368,469	27,702	174,639	154,153	155,918	29,467
Total passed through Michigan Department of Education			1,375,729	72,345	661,128	572,470	626,598	126,473
Passed through Ingham Intermediate School District:								
Special Education Cluster:								
IDEA Pre-Primary Impaired	84.173A	050460-0405 060460-0506	24,145 21,822	11,206	24,145	11,206 8,992	21,822	12,830
Total Special Education Cluster			45,967	11,206	24,145	20,198	21,822	12,830

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2005	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Education (Concluded):</u>								
Passed through Potterville Public Schools								
Homeless	84.196A	05320-04054	\$ 150	\$	\$	\$	\$ 150	\$ 150
Passed through Eaton Intermediate School District:								
Safe and Drug Free Schools	84.186A	052860-0506	2,519			2,519	2,519	
		062860-0506	2,509			2,509	2,509	
			5,028			5,028	5,028	
Passed through the Michigan Department of Education:								
Katrina Hurricane Relief - For Displaced Students	84.938C	064120	1,133				1,133	1,133
Carole M. White Physical Education Program	84.215F	Q215F050104	206,110			176,898	192,080	15,182
Total U.S. Department of Education			1,634,117	83,551	685,273	774,594	846,811	155,768
<u>U.S. Department of Health and Human Services:</u>								
Passed through Ingham Intermediate School District								
Medicaid Administrative Outreach	93.778		36,639			36,639	36,639	
<u>U.S. Office of Domestic Preparedness:</u>								
Passed through Department of State Police								
State Homeland Security Grant Part II	97.004		10,672			10,663	10,663	
Total Expenditures of Federal Awards			\$ 2,251,446	\$ 83,551	\$ 934,774	\$ 1,142,413	\$ 1,214,630	\$ 155,768

The accompanying notes are an integral part of this schedule.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of the School District of the City of East Lansing and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. Title 1, CFDA (#84.010) was audited as the major program, representing 36% of expenditures. The District is a low risk auditee.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Reconciliation of federal revenues reported on financial statements with expenditures per schedule of expenditures of federal awards:

Federal revenue, per financial statements:

General fund	\$ 894,113
Other nonmajor governmental funds	<u>320,517</u>
	<u><u>\$ 1,214,630</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

➤ Material weakness(es) identified: Yes X No

➤ Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified: Yes X No

➤ Reportable condition(s) identified that are not considered to be material weakness(es)? Yes X None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I - Improving Basic Programs

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006**

There were no findings disclosed for the past two years.



Iamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

August 18, 2006

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

In planning and performing our audit of the financial statements of the School District of the City of East Lansing for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 18, 2006, on the financial statements of the School District of the City of East Lansing.

PRIOR YEAR COMMENTS - OPEN

Disaster Recovery Plan

With the increased reliance on technology, significant amounts of valuable data are stored electronically. In time of emergency, a formalized program including a secondary off-site system that may be utilized, and guidelines on lines of responsibility and courses of action is invaluable in providing for continuity of information flow. We recommend the District complete developing such a plan.

PRIOR YEAR COMMENTS - RESOLVED

Bank Reconciliation Review

Currently, bank reconciliations are reviewed in a timely manner. We recommend the CD showing cancelled checks be reviewed and documented as part of the review process periodically for any unusual payees, signatures or other unusual items.

Resolution

Staff Accountant now examines copies of checks on CD's for any unusual payees, signatures or other unusual items during the monthly bank reconciliation process and documents completion of this process with a signature

Duplicate Invoices

We noted several vendors that were paid twice for a single invoice, this caused an over payment to the vendor which were not detected until several months after payment. Duplicate copies of invoices should be marked or destroyed and discarded upon receipt in such a manner that will prevent duplicate payment.

Resolution

Accounts payable clerk destroys duplicated invoices upon receipt as to prevent duplicate payment.

New Rules For §403(b) Plans

Proposed regulations were issued last year that require a written plan document for §403(b) plans. The plan must contain all the material terms and conditions for eligibility, benefits, contribution limitations, the annuity contracts or accounts available or used under the plan for funding, and the time and form under which benefit payments will be made. There is no requirement that a single document must be used. This rule applies for tax years beginning after 2005.

We would recommend that you contact your attorney before the end of 2005 to assure you comply.

Progress

Although regulations have not been finalized on requirements to have a written plan document for §403(B) plans, the School District of the City of East Lansing has been monitoring their plan documentation.

CURRENT YEAR COMMENTS

Certain current year comments are a result of reorganization of personnel in the business office.

Journal Entry Approval

We recommend that the Superintendent review and approve all nonstandard journal entries made by the Director of Finance and initial the support for the entries to document their approval. This process would improve controls over adjustments to the general ledger.

New Vendor Approval

The accounts payable clerk has the ability to add new vendors without approval. We recommend an individual separate from the accounts payable process such as the Director of Finance, review new vendors added on a reasonable and consistent basis to help strengthen internal controls.

Blank Check Stock Access & Numerical Sequence of Checks

Accounts payable and payroll personnel have access to blank check stock which minimizes current internal control procedures. Our audit procedures also indicated that there is currently no procedure in place for verifying the numerical sequence of checks. We recommend an individual separate from the recording of accounts payable and payroll transactions, such as the Superintendent's secretary, be responsible for maintaining blank checks and verifying numerical sequence of checks. We recommend sequence of checks on check run reports be reconciled to checks that are signed out by accounts payable and payroll personnel to further strengthen internal controls.

Initial Listing of Receipts

Our audit procedures disclosed that the cash receipts process is adequately designed; however, the final step of reconciling the daily cash receipt log to the actual deposit slip is not performed on a regular basis. Performing this procedure greatly strengthens controls over cash receipts and ensures that all checks received are being deposited into the bank. We strongly recommend that management insist that this procedure be completed on a timely basis and that any differences be resolved.

Athletic receipts

The Athletic Director records cash receipts for a sporting event on a cash worksheet, however, the cash worksheet is not currently being reconciled with the bank validated deposit ticket. We recommend an individual separate from the athletic cash receipt process or recording of athletic receipts reconcile the cash worksheet generated by the athletic director with the bank validated deposit slips to further strengthen internal controls.

Cash Management

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during FY 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management. We suggest the district request funds on a reimbursement basis in order to ensure compliance with the cash management requirements.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the district fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the district's current budget procedures are adequate.

New Auditing Standards

Recently, ten new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

7

August 18, 2006

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a “material weakness” and added two new categories of deficiencies “significant deficiency” and “control deficiency”. Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. We will have to evaluate the District’s ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of School District of the City of East Lansing, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

A handwritten signature in black ink that reads "Mamey Costeusan, E. Ellis, P.C." The signature is written in a cursive, flowing style.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Racek
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

August 18, 2006

The Finance Committee
School District of the City of East Lansing
East Lansing, Michigan

We have audited the financial statements of the School District of the City of East Lansing for the year ended June 30, 2006, and have issued our report thereon dated August 18, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally Accepted Accounting Standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the School District of the City of East Lansing's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the School District of the City of East Lansing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the School District of the City of East Lansing's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the School District of the City of East Lansing's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the School District of the City of East Lansing's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District of the City of East Lansing are described in Note 1 to the financial statements. We noted no transactions entered into by the School District of the City of East Lansing during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimated liability for compensated absences and estimated fixed asset lives for depreciation.

Management's estimate of the liability of the payout for employee compensated absences upon their retirement is based on expected payout; the balance reported was \$6,904,231. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain amounts included as capital assets have been estimated. Certain allocations on the statement of activities allocating operating grants between instruction and support services have been used in preparing this statement.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the School District of the City of East Lansing's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the School District of the City of East Lansing, either individually or in the aggregate, indicate matters that could have a significant effect on the School District of the City of East Lansing's financial reporting process. All adjustments have been approved by management.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District of the City of East Lansing' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Finance Committee
School District of the City of East Lansing
East Lansing, Michigan

-4-

August 18, 2006

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the board of education, management and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service and would be happy to discuss the foregoing items at your convenience.

Very truly yours,

Mamey, Costeniser & Ellis, P.C.